



WORKERS' COMPENSATION THIRD PARTY ADMINISTRATOR

**COUNCIL MEMBER
BRIEFING DOCUMENT
August 5, 2008**

City of Houston
Human Resources Department
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City of Houston
Workers' Compensation Third Party Administrator and Related Services
Council Member Briefing Document
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<u>Scope:</u>	Third Party Administrator (TPA) and related services for the City's self-insured Workers' Compensation Program.
<u>Mission:</u>	To contract with a Third Party Administrator that embodies our philosophy of meeting the reasonable, necessary, and related medical needs of our injured workers for expedient and healthy return to work.
<u>Responsible Department:</u>	Human Resources Department
<u>Recommended TPA:</u>	Cambridge Integrated Services, Inc.
<u>Contract:</u>	3 years plus two 2-year options. Current contract expires on August 31, 2008.
<u>City Council Agenda:</u>	August 6, 2008.
<u>Funding:</u>	Cambridge - \$14,017,025 MWBE - \$5,880,000 Total - \$ 19,897,025

1. **Proposals Received:** An RFP for a Third Party Administrator was released on February 28, 2008. On March 14, 2008, we received seven (7) proposals and four (4) proposals from firms willing to provide a portion or portions of the ancillary services which may include cost containment, case management, private investigations, and a preferred provider organization.
2. **Interdepartmental Assessment Committee:** The HR Department enlisted the aid of an assessment committee consisting of twelve (12) representatives from six (6) departments, the majority being from high-risk departments. In addition, AON was engaged to assist in the evaluation, negotiation and selection process.

Upon receipt of the proposals, the committee narrowed the field down to five (5) TPAs - Corvel, JI, CCS, Cambridge, and Tri-Star. Viable TPAs presented their program to provide them the opportunity for the City to review vendors with a demonstrated ability to deliver quality services representing the best value.

The subsequent list was then narrowed down to three (3) - JI, Cambridge, and Tri-Star. Onsite visits were conducted for these TPAs to ascertain claims handling, systems, reporting and management structure.

3. **Finalists:** The evaluations of the proposers went through a comprehensive process. The committee
 - reviewed all proposals and selected three (3)
 - conducted a lengthy structured interview to determine capacity
 - paid onsite visits
 - had a sub-committee review the technical requirements and capacity
 - had AON performing due diligence on operational and managed care functions
 - participated with AON consulting on the assessment of claims administration and managed care
4. **Evaluation Summary:** The multi-part assessment strategy was to evaluate each vendor based on four (4) core areas: Executive Management, Claims Handling, Cost Containment, and Systems. Pricing was also a key component with consideration given not only for lowest price, but also for the vendor proposing an array of services representing the best value and advantage for the City.
5. **Rationale for Cambridge:** Cambridge has established a Texas and Houston presence with demonstrated experience servicing entities larger than the City of Houston. It is the consensus that Cambridge provides the best value for the array of deliverable services.

Cambridge as the incumbent has in their performance of their duties earned a Tier 1 rating (highest) by Texas Department of Insurance – Workers' Compensation Division. They have a Houston presence with their office, systems, personnel, and management in place.
6. **Other Procedures:** In addition to the evaluated core services areas, the committee validated prior results and performed a cost analysis.
7. **Current Contract:** The current contract expires August 31, 2008. The HR Department recognizes the need to have a new contract in place by September 1, 2008 with the contract to be awarded in August, 2008. This will allow time for some conversion requirements and an overall seamless transition phase.
8. **Pricing:** Comparison of recommended proposer (incumbent) on a 3 year with 2 two year option contract.

	FY 2003 – 2008 Current Contract (Restated) (1)	FY 2008 – 2015 (Proposed)
	<u>Cambridge</u>	<u>Cambridge</u>
A. Basic TPA Claims Admin., Maintenance and Ancillary Fees	\$ 14,286,100	\$ 12,017,025
B. Claim Contingency	<u>2,000,000</u>	<u>2,000,000</u>
Total:	<u>\$ 16,286,100</u>	<u>\$ 14,017,025</u>

% Decrease: <14%> (2)

Note: 1) Includes 5th year cost extended two years for comparative purposes.

2) A primary reason for the cost reduction is program improvement during the last 5 years.

9. **Objectives:** The TPA is to provide innovative services, solutions, and technology addressing workers' compensation claim management issues and needs. The City desires a collaborative effort yielding creative, custom-designed programs, constantly finding ways to strengthen and improve the relationship among the claim management provider network, management, and the injured worker.

10. **TPA and Related Services:** The workers compensation Third Party Administrator (TPA) is responsible for claims handling and related services. The TPA will either provide all related services or arrange through subcontracting (proposer efforts with City approval). MWBE related services are estimated to be \$5,880,000 during the term of the contract. Claims management services are directly related to claim activity and include:

- Compliance with all Texas Department of Insurance - Workers' Compensation Division claims handling requirements
- Medical bill auditing for facility and non-facility charges
- Association with a preferred provider network
- Vocational and medical case management
- Medical exam coordination
- Managed care services
 - Prescription Benefit Management
 - Cost Containment Services
 - Utilization Review
- Private investigative activities
- Accident prevention/loss control (safety consultation)

The City is committed to providing all statutory workers' compensation benefits provided for by state law. However, the City also desires to control costs insofar as is legal and/or practical. Workers' compensation costs are a substantial drain on the City's budget, and we are constantly looking for new or changes to techniques and/or practices that will assist in controlling such costs.

11. **References:** The committee questioned Cambridge's performance under their contract/service agreement. All references validated Cambridge's assertion and our observations of their ability to handle the City account.

12. **Transition/Conversion:** Cambridge has documented an implementation plan for the City program which includes the ancillary MWBE subcontractors providing cost containment services. They have significant experience with the City of Houston accounts. This should enhance Cambridge's ability to provide a minimal conversion timetable with negligible opportunity for service disruption.

Important operational issues have been addressed with Cambridge. The implementation plan addresses City organizational structure, program funding, data interfaces, training, and education.

13. **Incumbent:** The performance of the current TPA (Cambridge) was a significant factor in the evaluation process. They performed according to contract and the City's overall workers' compensation program has experienced positive results. The successes are largely due to the significant amount of hands on management and various loss/cost stabilization and reduction programs, policies, and procedures implemented by the City.

14. **Conclusion:** The City must partner with a vendor who has demonstrated experience and ability in managing and reducing workers' compensation costs, knowledgeable and experienced staff, and a support system for timely and accurate claims processing with a control system to ensure proper treatment and service delivery to our injured workers; a partner whose underlying philosophy centers around responsiveness, flexibility, and customer service. Cambridge Integrated Services Inc. fits the requirements.

The HR Department recommends Cambridge Integrated Services, Inc. as the City's workers' compensation third party administrator. Cambridge consistently garnered high scores from the assessment committee and had the best price. Cambridge provides the best value to the City.

**CAMBRIDGE
PERFORMANCE INDICATORS
2003-2008**

1. **Ranked in the top three best performing TPAs in 2007**
 - Business Insurance Readers' Choice Awards
2. **Focus on outcomes and measurement – year 1 to year 5 claim reduction of 24%**
 - a. City average fiscal year cost per claim – then \$2,459 now \$1,910
 - b. Texas average annual cost per claim – then \$2,124 now \$2,613
3. **Tier 1 rating for the City**
 - a. Highest rating given by the Texas Department of Insurance
 - b. Underlying statistics measure service to the injured worker
4. **MWBE**
 - a. Participation will exceed 20%
 - b. Injury Management Organization Inc. (IMO) will provide cost containment services
5. **Blue Chip Clients**
 - a. Southwest Airlines
 - b. Wal-Mart
 - c. Chrysler
 - d. American Express
 - e. Cintas